

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 ISO-00 CIAE-00 DODE-00

PM-07 H-03 INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01

PRS-01 SP-03 SS-20 USIA-15 AID-20 COME-00 FRB-03

TRSE-00 XMB-07 OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01

INT-08 GSA-02 IO-14 FEA-02 STR-08 CEA-02 DRC-01 /228 W

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R 241003Z JUL 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 0055

INFO AMCONSUL ZAGREB UNN

AMEMBASSY KINGSTON

AMEMBASSY CONAKRY

AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 1 OF 2 BELGRADE 3625

E.O. 11652: GDS

TAGS: EMIN, EFIN, EIND, YO

SUBJECT: ASSESSMENT OF TRENDS IN ALUMINUM/BAUXITE INDUSTRY -
FOLLOW-UP RESPONSE

REFS: A. BELGRADE 3440 B. STATE 145450

SUMMARY: ADDITIONAL DISCUSSIONS WITH SECRETARY-GENERAL OF NEW YUGOSLAV TRADE ASSOCIATION FOR ALUMINUM AND WITH OTHERS CONFIRM OUR VIEW THAT YUGOSLAVIA IS COUNTING HEAVILY ON FOREIGN CAPITAL FOR AMBITIOUS ALUMINUM/BAUXITE INDUSTRY DEVELOPMENT PLANS. WHILE SOVIET AND FRENCH CREDITS NOW SEEM MOST LIKELY SOURCES, MUCH ADDITIONAL CAPITAL IS NEEDED AND A FIRST FOREIGN EQUITY INVESTMENT IS BEING SOUGHT. YUGOSLAV PUBLIC STATEMENTS CONTINUE TO EMPHASIZE SUPPORT FOR CONCEPT OF "FULL LDC SOVEREIGNTY" OVER NATURAL RESOURCES. COUNTRY'S OWN NEED FOR FOREIGN CAPITAL, OWN INVESTMENT IN GUINEA, AWARENESS OF AVAILABILITY OF SUBSTITUTES FOR BAUXITE, TRADITIONAL OPPOSITION TO RADICAL SOLUTIONS

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AND OUR CONTINUING EDUCATIONAL EFFORTS HERE GIVE REASON TO HOPE

FOR REASONABLY CONSTRUCTIVE YUGOSLAV POSITION IN NEW INTERNATIONAL BAUXITE ASSOCIATION (IBA). END SUMMARY.

1. DISCUSSIONS WITH LUKA DERETA, SECRETARY-GENERAL OF YUGOSLAV TRADE ASSOCIATION FOR ALUMINUM, OTHER NON-GOVERNMENTAL SPECIALISTS AND DIPLOMATS HAVE IN GENERAL CONFIRMED DATA ON YUGOSLAV PLANS FOR EXPANSION OF ALUMINUM/BAUXITE INDUSTRY REPORTED IN BELGRADE 3440. TRADE ASSOCIATION, WHICH HAD PREVIOUSLY BEEN TINY SECTION OF YUGOSLAV CHAMBER FOR ECONOMY, OPENED SEPARATE OFFICE JULY 22 WITH INITIAL STAFF OF TEN.

2. ACCORDING TO DERETA, YUGOSLAV BAUXITE PRODUCTION THIS YEAR WILL TOTAL 2.6 MILLION TONS; ALUMINA, 300 TO 350,000 TONS, AND ALUMINUM 125 TO 150,000 TONS.

3. BY 1980 - OR, IF POSSIBLE, AS EARLY AS 1978 - BAUXITE PRODUCTION IS TO BE RAISED TO 5 MILLION TONS, ALUMINA TO 16 MILLION TONS AND ALUMINUM TO 400,000 TONS. BY THAT TIME, ACCORDING TO OFFICIAL PLANS, EXPORT OF BAUXITE WILL DECLINE FROM CURRENT 1.8 MILLION TONS TO ABOUT ONE MILLION TONS, BUT EXPORT OF MORE PROFITABLE ALUMINA, NOW AN INSIGNIFICANT QUANTITY, WILL BECOME VERY MAJOR ITEM. IN LIGHT OF TIGHTNESS IN ELECTRIC SUPPLIES, YUGOSLAVIA DOES NOT PLAN TO EXPORT MUCH ALUMINUM, BUT WISHES TO DEVELOP MARKETS FOR MORE PROFITABLE SEMI-FINISHED AND FINISHED ALUMINUM PRODUCTS.

4. SINCE DOMESTIC FINANCIAL RESOURCES ARE VERY LIMITED, LARGE INFUSIONS OF FOREIGN CAPITAL WILL BE NECESSARY IF AMBITIOUS PRODUCTION GOALS ARE TO BE REACHED. YUGOSLAVS HAVE BEEN ONLY PARTIALLY SUCCESSFUL IN SECURING SUCH FUNDING (A) USSR HAS EXTENDED 117 MILLION RUBLE CREDIT FOR CONSTRUCTION OF NEW 600,000 TONS CAPACITY ALUMINA PLANT AT ZVORNIK, BOSNIA. AS PART OF REPAYMENT TERMS, YUGOSLAVS HAVE COMMITTED THEMSELVES TO DELIVERING TO SOVIETS 600,000 TONS OF ALUMINA PER YEAR FOR TEN YEARS "AT WORLD MARKET PRICES." (B) EAST GERMAN CREDIT, REPAYABLE IN ALUMINA AND IN ALUMINUM PRODUCTS, IS FINANCING 300,000 TONS ALUMINA PLANT AT OBROVAC, DALMATIA, AND (C) CREDIT BY FRENCH FIRM PECHINEY IS FINANCING 85,000 TON CAPACITY MOSTAR ALUMINUM PLANT WITH REPAYMENT IN

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PART THROUGH ANNUAL DELIVERIES OF 40,000 TONS OF ALUMINUM.

5. FOR SIZEABLE ASPECTS OF EXPANSION PLANS, NEEDED FOREIGN FINANCING IS STILL BEING EAGERLY SOUGHT. SOVIETS HAVE OFFERED CREDIT FOR EXPANSION OF BAUXITE, ALUMINA AND ALUMINUM PRODUCTION IN TITOGRAĐ, MONTENEGRO, BUT ACCORDING TO DERETA - CREDIT IS TOO SMALL, AND SOVIET TECHNOLOGY IS NOT REALLY COMPATIBLE WITH FRENCH PECHINEY TECHNOLOGY USED IN PREVIOUS STAGE.

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6. YUGOSLAVS ARE NOW ACTIVELY SEEKING FOREIGN CAPITAL FOR EXPANSION OF TITOGRAĐ AND MOSTAR, AS WELL AS FOR DEVELOPMENT AND PROCESSING OF SO-FAR UNTOUCHED RICH BAUXITE DEPOSITS AT BOSANSKA KRAJINA, BOSNIA, AND LIKA, CROATIA. IT IS POSSIBLE THAT ADDITIONAL MODERATE-SIZE CREDITS CAN BE OBTAINED FROM PECHINEY, HUNGARY, AND EAST GERMANY, BUT YUGOSLAVS ARE HOPEFUL THAT KAISER AND OTHER AMERICAN FIRMS WILL SHOW RENEWED INTEREST.

7. DERETA AND OTHERS CONFIRM THAT YUGOSLAVS WOULD WELCOME FOREIGN EQUITY CAPITAL FOR YUGOSLAV ALUMINUM/BAUXITE INDUSTRY, BUT ARE UNAWARE OF ANY DISCUSSIONS CONCERNING POSSIBLE JOINT VENTURES AT THIS TIME.

8. YUGOSLAV BASIC OBJECTIVES IN JOINING INTERNATIONAL BAUXITE ASSOCIATION (IBA) WERE, ACCORDING TO DERETA, TO ASSURE THAT BAUXITE PRICES KEEP PACE WITH OVERALL WORLD PRICE INCREASES AND TO PROMOTE TECHNICAL COOPERATION AMONG PRODUCERS. IN CONFORMITY WITH ITS DECLINING ROLE AS BAUXITE EXPORTER, YUGOSLAVS DOES

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NOT PLAN MAJOR ROLE IN IBA, DERETA INSISTED, AND WILL CAREFULLY REFRAIN FROM ENCOURAGING OTHER MEMBERS TO ADOPT NEW PRICING AND TAXATION POLICIES SINCE THIS WOULD CONSTITUTE INTERFERENCE IN THEIR INTERNAL AFFAIRS. YUGOSLAVIA IS FULLY AWARE THAT BAUXITE COULD BE REPLACED BY OTHER BASIC MATERIALS IF PRICE CLIMBS TOO MUCH, DERETA ADDED, AND COMMENTED AT LENGTH ABOUT SOVIET EXPERIMENTS WITH NEFELIN SUBSTITUTE.

9. IT WOULD BE UNREALISTIC TO EXPECT SIGNIFICANT HELP FROM YUGOSLAVS IN DISCOURAGING OTHER COUNTRIES FROM FOLLOWING JAMAICAN GOVERNMENT LEAD. IN ADDRESS TO RECENT TENTH PARTY CONGRESS, TITO CHARGED THAT "ADVANCED PART OF WORLD HAS BEEN ENRICHING ITSELF ON BASIS OF LOW PRICES OF ENERGY AND RAW MATERIALS COMING FROM DEVELOPING COUNTRIES....TODAY PROCESS OF ECONOMIC DECOLONIZATION AND ASSERTION OF SOVEREIGNTY OVER NATURAL RESOURCES CANNOT BE STOPPED." HE URGED IN JULY 8 INTERVIEW THAT PRINCIPLES AND ACTION PROGRAM ADOPTED AT RECENT UNGA SPECIAL SESSION TO BE PUT INTO PRACTICE AS SOON AS POSSIBLE.

10. ON THE OTHER HAND, IN IMPORTANT SERIES OF ARTICLES ON CHANGING WORLD ECONOMIC RELATIONSHIPS, VIE PRESIDENT VRATUSA WARNED THAT LDC'S SHOULD NOT REPLY PRIMARILY ON INCREASED RAW MATERIAL PRICES FOR ECONOMIC DEVELOPMENT, BUT RATHER ON AUGMENTED PRODUCTION AND PRODUCTIVITY. MOREOVER, TITO AND OTHER YUGOSLAV LEADERS HAVE REPEATEDLY CALLED FOR COOPERATIVE DEVELOPED COUNTRY - LDC SOLUTIONS TO PROBLEMS OF DEVELOPMENT, AND HAVE OPPOSED CONFRONTATIONS AND RADICAL ACTION OF ANY KIND.

11. WE BELIEVE OUR CONTINUING EDUCATIONAL EFFORTS, EMPHASIZING TO YUGOSLAVS THAT SUPPORT FOR DRASTIC ACTIONS BY BAUXITE PRODUCERS NOT LIKELY TO BENEFIT PRODUCERS THEMSELVES IN LONG RUN, NOT LIKELY TO ATTRACT INVESTMENT INTO YUGOSLAVIA'S OWN INDUSTRY, AND HARDLY CONSISTENT WITH YUGOSLAV BAUXITE PROJECTS IN THIRD COUNTRIES, HAS CHANCE OF PRODUCING MODERATELY HELPFUL POSITION IN IBA AND OTHER CONTACTS WITH PRODUCERS.

12. YUGOSLAVS HAVE EMPHASIZED TO US INTEREST IN ADVANCE CONSULTATIONS ON FORTHCOMING GENEVA MTN TRADE NEGOTIATIONS AND THEIR DESIRE FOR SUCCESSFUL OUTCOME INCLUDING IN AREA OF IMPROVED INTERNATIONAL PRODUCER-CONSUMER COOPERATION (BELGRADE 3566).

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Message Attributes

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